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FM AMEMBASSY SEOUL
TO RUEHC/SECSTATE WASHDC PRIORITY 8290
INFO RUEATRS/DEPT OF TREASURY WASHDC PRIORITY
RUCPDOC/DEPT OF COMMERCE WASHDC 1481
RHEHNSC/NSC WASHDC
RUEHKO/AMEMBASSY TOKYO 0824
RUEHBJ/AMEMBASSY BEIJING 0751
RUEHSH/AMCONSUL SHENYANG 2966
RUEHVK/AMCONSUL VLADIVOSTOK 0976

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SIPDIS

SENSITIVE
SIPDIS

STATE FOR EAP/K AND EB/IFD
COMMERCE FOR 4431/MAC/OPB/EAP/DUTTON
PASS USTR FOR CUTLER, AUGEROT AND KI
TREASURY FOR IA/ISA/DOHNER AND BUCKLEY
NSC FOR CHA AND COLLINS

E.O. 12958: N/A

TAGS: [PREL](#) [ETRD](#) [EINV](#) [SOCI](#) [KN](#) [KS](#)

SUBJECT: NORTH-SOUTH COOPERATION: DPRK AND ROK REACH
AGREEMENT ON RECIPROCAL DEAL TO ALL RAILWAY TEST RUNS

SUMMARY

¶1. (SBU) North Korean and South Korean delegations meeting on Jeju Island reached an agreement late on June 6 that should allow the two sides to go forward with test runs of the two reconstructed cross-border railways located on the east and west coasts of the Korean Peninsula. Under the deal, South Korea will lend USD 80 million worth of raw materials to manufacture shoes, soap and other essentials, to be repaid at 1 percent interest over 15 years through shipments of North Korean natural resources. Provision of the material is conditioned upon the North Korean military granting permission to allow the railways to go into service. End Summary.

NORTH-SOUTH MEETING YIELDS BREAKTHROUGH ON RAIL TESTS

¶2. (U) The two Koreas held their twelfth round of official inter-Korean economic talks on Jeju Island on June 3-6. The South Korean delegation was led by Vice Minister of Finance and Economy Park Byung-won. The North Korean delegation was headed by Vice Chairman of the National Economic Cooperation Committee Choo Dong-chan.

¶3. (SBU) Under a deal closed on June 6, South Korea agreed to provide North Korea USD 80 million worth of raw materials for light industry -- shoes, soap and clothing -- on the condition that the canceled test-runs of the two inter-Korean railways are revived. In return, North Korea will provide natural resources this year such as zinc and magnetite, to repay 3 percent of the costs of raw materials for light industry provided by South Korea. The rest will be repaid at 1 percent interest over 15 years through additional shipments of North Korean natural resources.

¶4. (U) There are nine provisions in the agreement reached on June 6. In addition to the main agreement, the two Koreas adopted a key addendum on light industry and natural resource development cooperation that outlines additional detailed terms of cooperation. The following are the main portions of the agreement:

-- Addendum on light industry and natural resources

development;
-- Extraction of gravel from the Han River;
-- Promotion of the Kaesong Industrial Complex project;
-- Preventing floods along the Imjin River;
-- Preventing natural disasters;
-- Joint ventures into a third country in economic and/or natural resources development;
-- Exchange of economic delegations; and
-- Fisheries, science and technology cooperation.

¶5. (U) The South Korean government welcomed the agreement on expanded economic cooperation. However, the South Korean media noted that it still remains unclear whether the agreement will be fully implemented due to the history of the North Korean military attempting to regulate the speed of inter-Korean economic cooperation projects, including the Kaesong project.

¶6. (U) An unofficial Embassy translation of the full text of the agreement and the addendum signed between the two Koreas at the talks follows below.

COMMENT

¶7. (SBU) Ministry of Unification (MOU) press handlers made a point of emphasizing the new spirit of "reciprocity" in the June 6 deal, perhaps missing the irony of negotiating new benefits for North Korea to get the DPRK to agree to put in use cross-border infrastructure that was entirely bankrolled by the South. Many Seoul-based observers noted that if the provisions of the agreement are properly carried out, both sides could benefit -- South Korea could receive needed natural resources while North Korea could resolve chronic

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shortages of daily necessities such as soap, clothing and footwear. Still, some doubt whether the agreement can be implemented, and instead point out that South Korea may give more than it receives in the agreement because North Korea lacks proper production facilities of light industry and poor infrastructure in its mines. Thus, in order for North Korea to fulfill the conditions of the agreement, North Korea may request additional assistance in related fields.
End Comment.

Agreement of the 12th Round of Inter-Korean Economic Cooperation Promotion Committee Talks

South and North Korea held the 12th round of the Inter-Korean Economic Cooperation Promotion Committee Talks on Jeju Island, South Korea on June 3-6, 2006.

At the meeting, the two Koreas discussed issues in order to further expand and develop inter-Korean economic cooperation projects based on the fundamental spirit of the June 15, 2000 Inter-Korean Joint Declaration and agreed on the following:

In relation to the implementation of the first Provision of the agreement from the 10th Inter-Korean Economic Cooperation Promotion Committee Talks, the two Koreas adopted an "Agreement (addendum) on the inter-Korean cooperation in light industry and natural resource development" and to put it into effect at the earliest possible date, as soon as the proper conditions are created.

The two Koreas agreed to discuss and promote a project to extract aggregation from the mouth of Han River once the two militaries guarantee security.

Both Koreas agreed to provide conditions to make Kaesong Industrial Complex (KIC) internationally competitive.

Toward that end, the two Koreas agreed to hold a second working-level contact for the construction of the KIC in Kaesong, North Korea on June 20-21, 2006. These meetings will focus on such issues as simplifying customs procedures (such as the rapid implementation of the pass system stable provision for necessary workers), and constructing more living quarters and amenities for the increasing number of South Korean workers in the KIC.

South and North Korea agreed to hold the first working-level contact to discuss flood prevention at the Imjin River on June 26-27, 2006 and specifically discuss the results of independent surveys, a plan for conducting joint surveys, and a flood warning system.

The two Koreas agreed to actively cooperate in preventing natural disasters such as floods, forest fires, and yellow dust, and discuss concrete plans by holding a working-level contact in Kaesong sometime in July, 2006.

Both Koreas agreed to discuss a possible joint venture into a third country in natural resource development by holding a working-level contact in Kaesong sometime in July 2006.

The two Koreas agreed to exchange economic observation delegations when the "Agreement (addendum) on Inter-Korean Cooperation in Light Industry and Natural Resources Development" comes into effect.

The two Koreas agreed to discuss and determine a timetable for a working-level meeting on regarding fishery scientific, and technical cooperation. In addition, the two Koreas will form an arbitration committee dealing with inter-Korean economic cooperation projects.

The next round of Inter-Korean Economic Cooperation Promotion Committee Talks will be held in Pyongyang, North Korea sometime in September 2006.

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Agreement (addendum) on Cooperation in Light Industry and Natural Resources Development

In relation to the implementation of the first Provision of the agreement of the 10th Inter-Korean Economic Cooperation Promotion Committee Talks, the two Koreas share the understanding that light industry and natural resources development cooperation should seek the nation's mutual prosperity and interests, as well as, actively contribute to a balanced development of the nation's economies and thus agreed as follows:

South Korea will supply raw materials of light industry on credit starting from 2006 that are necessary to produce clothing, footwear and soap in North Korea. According to how cooperation in the natural resources development is carried out, North Korea will pay back the costs with natural resource products, natural resources development rights, and/or product disposal rights.

South Korea will supply USD 80 Million worth of raw materials of light industry to North Korea in 2006. The North will repay three percent in natural within 2006.

The remaining payment will be deferred for five years, repaying the principal and interests in evenly divided payments for ten years. The interest rates will be set at an annual one percent and in cases of overdue payments four percent.

Prices of raw materials of light industry and redeemable materials will be set in accordance with international market price. North Korea shall not export to a third

country the raw materials of light industry and manufactured goods supplied by South Korea.

North Korea shall guarantee South Korean experts' site visits, technical aid, safety for South Korean personnel, safe operation of transportation means, and other conveniences so that light industry cooperation can be done smoothly.

The two Koreas will jointly invest in mines for zinc, magnesia clinker, and other types of mineral that they agree upon.

North Korea shall guarantee necessary materials to the maximum such as mineral prospecting materials, facility-related materials such as tunneling, mining, and ore dressing of the subject of cooperation that they agreed upon as well as infrastructure related materials for corresponding areas so that natural resources cooperation can be actively carried out.

North Korea will actively guarantee South Korean experts' and businessmen's joint field survey, feasibility studies, installment of necessary facilities and technical aid, infrastructure such as roads, railways, harbors, electricity, water, and communication, the coming and goings, and safety for related personnel, and safe operation of transportation means.

South and North Korea will determine an all-inclusive implementing body that will discuss and handle the related issues and inform it to the other side within one month starting from the day that this agreement comes into effect.

Any issues that are brought up during the process of implementing this agreement will be settled through consultation between the two Korean authorities.

This agreement will come into effect according to the first Provision of the Agreement of the 12th Inter-Korean Economic Cooperation Promotion Committee Talks. This can be revised

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and supplemented according to consultation between the two Koreas.

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